

Thames Water Utilities Limited (TWUL)



In-period adjustments and  
revenue forecasting incentive  
models submission -  
commentary

July 2024

## Introduction

Alongside the Annual Performance Report (APR), we are submitting two models relating to in-period adjustments:

1. In-period adjustments model:  
[PR19IPD04-in-period-adjustments-model-v1.4d\_May2024 - TMS APR24 v1 20240628.xlsx];
2. Revenue Forecasting Incentive (RFI) model populated with data from the water resources, water network plus, wastewater network plus and Thames-delivered Thames Tideway Tunnel (TTT) price controls:  
[RFI-model-Apr-2023-v1.0a - TMS APR24 v2 20240626.xlsb]

## In-period adjustments model

### ODI payments

We have populated the ODI payments (by price control) as calculated with the ODI performance model and shown in table 3H of the APR.

As we are forecasting that we will not be in a tax-paying position in AMP7, we have used a 0% marginal tax rate in the in-period model for the purposes of tax applied to our ODI payments.

### Other ODI payments

We have populated our expected C-MeX and D-MeX payments, based on the currently available data for the industry. Thames Water ranked 17<sup>th</sup> on both C-MeX and D-MeX industry league tables, which corresponds to underperformance payment rates of -12%.

Our calculation of the performance payments replicates Ofwat's C-MeX and D-MeX models. The Thames Water C-MeX underperformance payment is £12.211m in 2017-18 prices. The D-MeX underperformance payment is £5.572m in 2017-18 prices.

### Bespoke adjustments

As reported in the 'Common performance commitments' section of the APR 2023-24, we have restated the annual leakage figures for the earlier years of AMP7. As a result, the leakage ODI penalty for the first three years of AMP7 is lower than previously reported by £0.3m (2020-21), £0.4m (2021-22) and £1.0m (2022-23). We have adjusted these amounts for time value of money factoring in the wholesale allowed return on capital (2.92%). The final leakage restatement adjustment is £1.783m, which was included as a bespoke adjustment in the in-period adjustments model.

## RFI models

The latest update of the RFI model, as published by Ofwat in May 2023, accounts for water resources, water network plus, wastewater network plus and TTT. We populated one version of the RFI model with data from these price controls.

### **Blind year adjustment (BYA)**

We propose to apply the BYA for the water resources, water network plus and wastewater network plus price controls fully in 2024-25.

In the BYA final decision document, Ofwat stated that the BYA for TTT would only be applied at PR24. Therefore, we populated the amount (£1.52m in 2019-20 prices) for reference purposes but set the profile to zero over all relevant years of AMP7.

### **RFI penalty adjustment**

The RFI model calculates the penalty adjustments arising from the imbalance between the allowed and the actual recovered revenue. In 2023-24, the imbalance was smaller than the penalty rate minimal threshold of 2% for wholesale water, wastewater network plus and TTT. Therefore, the revenue recovery results in nil RFI penalty for this reporting year.